

WATER/ICRJ/FLC/KKL/RHG

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-4328
May 2, 2002**

R E S O L U T I O N

RESOLUTION W-4328. YERBA BUENA WATER COMPANY (YBWC). REQUEST TO SECURE A LOAN IN THE AMOUNT OF \$60,000, AND TO ADD A SURCHARGE TO WATER RATES TO REPAY THE LOAN PRINCIPAL AND INTEREST.

By Draft Advice Letter filed on February 11, 2002.

SUMMARY

This Resolution authorizes YBWC to borrow a total of \$60,000 for water system improvements required by the state Department of Health Services (DHS) and upon completion of the project, to place in effect a surcharge on existing water rates to repay the loan principal and interest.

The estimated annual revenue impact of the \$60,000 loan is \$9,000 for 10 years.

A notice of the proposed rate surcharge was mailed to each customer on February 22, 2002. Four letters from YBWC's customers were received questioning the project and the loan.

BACKGROUND

YBWC is a Class D water utility subject to the jurisdiction of this Commission. YBWC provides water to 220 metered rate customers in an area adjacent to the Pacific Ocean, Ventura County, about 15 miles north of Malibu.

By Compliance Order No. 05-06-01CO-001 dated September 25, 2001, DHS required YBWC to improve its source of supply. On November 8, 2001, DHS sent an enforcement letter requiring YBWC to submit a plan and time schedule pursuant to the Compliance Order.

The Compliance Order also noticed YBWC of the severity of the order and cited that additional enforcement actions, including civil penalties specified in the Health & Safety Code may be imposed for non-compliance to the obligations of the order.

Resolution (Res.) W-4197 dated June 8, 2000 granted YBWC an interim rate increase of 17%. Included in this resolution is an order requiring YBWC to initiate a project to provide an additional source of supply.

Pursuant to its Year 2000 Annual Report, YBWC reported that it generated total operating revenues of \$74,801 and net loss of \$21,267. The company's balance sheet is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 11,046
Current Assets	2,034
Other Current Assets	<u>54,165</u>
Total Assets	<u>\$ 67,245</u>
<u>Liabilities & Equity</u>	
Capital and Retained Earnings	\$(155,370)
Long-Term Debt	152,581
Current and Accrued Liabilities	53,248
Contributions in Aid of Construction	<u>16,786</u>
Total Liabilities & Equity	<u>\$ 67,245</u>

NOTICE AND PROTESTS

By bill insert dated February 18, 2002¹, YBWC notified its customers of its proposed construction project, the proposed loan, and the surcharge to repay the

¹ Mailed February 22, 2002.

loan. The notice also stated that (1) the water system improvement is mandated by DHS; (2) the monthly bill for a typical 5/8 x 3/4-inch metered customer using 700 cubic feet of water would increase from \$15.45 per month to \$17.52 or 13.4% for 10 years; and (3) the proposed surcharge rates are based on an estimated annual \$9,000 loan repayment amount and may change according to the terms of the final loan agreement.

The Water Division received one electronic letter from a customer who stated that the project is for profit purposes and will not result in any change or improvement of service. Three customers wrote that the utility wants to increase water for self interest and in order to supply more homes. There were no showing as to why the project will not improve service, how the customer will be affected, and why the proposed surcharge may not be justified.

The Water Division has replied to the letters and explained that the project consists of an upgrade in YBWC's Well 2 to bring the well's production to 50 to 60 gallons a minute and comply with the standards for drinking water. The surcharge rates will become effective upon completion of the project (i.e., when it becomes use and useful).

When a utility expands its production or capacity for growth purposes, future customers are charged up to a maximum of \$2,000 service fee and the regular surcharge thereafter. This is because they will benefit from the expenditures being made from the proceeds of the loan. The surcharge rates will be reviewed annually and will be reduced as new customers are hooked up into the water system.

Staff finds nothing in the customer's concerns that would require the Commission to reject YBWC's request. Public interest dictates that the utility should have the ability to provide safe and reliable water to its customers. This mandated project should be supported.

YBWC states in the exhibit attached to the filing that the utility's Well 5 with its 50-horse turbine motor could pump in the range of 500 to 600 gallons per minute from an aquifer in the Little Sycamore Canyon. YBWC believes that this aquifer source of quality potable water is sufficient to supply its present and future customers in its certified service area plus allocation of at least 50 acre feet of potable water to additional contiguous development to its present service area subject to approval of the Commission.

In order to comply with DHS' mandate for additional source of supply, YBWC proposes to upgrade its Well 2. The project consists of bringing up the well's production to 50 to 60 gallons a minute and complies with the standards for

drinking water. The project includes installation of well liner, a new 18 horse pump, and procurement of a diesel driven generator and trailer for emergency purposes.

YBWC's estimated construction costs including cost of obtaining the loan are as follows:

<u>Description</u>	<u>Total</u>
Well Liner:	
Labor	\$ 4,794
Materials	4,135
Permits	650
Pump	8,772
Generator	26,000
Electrical Work on Control Panel	10,000
Contingency	2,718
Loan Costs/Reserve	<u>2,931</u>
Total Cost	<u>\$60,000</u>

YBWC proposes to negotiate a loan in the amount of \$60,000 to be repaid quarterly over 10 years with an estimated interest rate of 8.0%. The final terms and conditions of the loan have not yet been determined and will be established prior to the execution of the loan agreement with due regard to YBWC's financial condition and the then prevailing and anticipated market conditions.

YBWC seeks authority to secure a loan and collect a surcharge at this time rather than waiting until all the terms and conditions of the loan agreement are known so that it will have the ability to negotiate in an effective and expeditious manner with a lender. The surcharge which will secure the repayment of the loan will not be collected until the project is completed.

PROPOSED SURCHARGE RATE

YBWC's present charges for water service were authorized by Res. W-4197 effective July 5, 2000.

The proposed loan will provide for a 10-year repayment schedule with quarterly payments of principal and estimated interest rate of 8.0% per annum.

The annual requirement for the \$60,000 loan is approximately \$9,000. The amount of the surcharge to repay the loan principal and interest will be in direct proportion to the capacity of each customer's meter or service connection.

The proposed surcharge rate schedule follows:

General Metered Service

Quantity Rate:	Present Per Meter Per Month
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All Water, per 100 cubic feet	\$0.35
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Service Charge:

<u>Size of Meter</u>	<u>Present Rate Per Meter Per Month</u>	<u>Proposed Surcharge Per Month</u>	<u>Increase</u>
5/8 x 3/4-inch meter	\$ 13.00	\$ 2.07	15.9%
1-inch meter	32.50	5.17	15.9%
1-1/2-inch meter	65.00	10.33	15.9%
2-inch meter	104.00	16.53	15.9%
3-inch meter	195.00	30.99	15.9%

The monthly bill for a typical 58 x 3/4-inch metered customer using 700 cubic feet of water would increase from \$15.45 per month to \$17.52 or 13.4% for 10 years.

We have reviewed YBWC's request for financing authority and the proposed use of proceeds and have determined that it is for proper purposes and is for the public good. As a public utility, YBWC has the responsibility to maintain its quality of service and to provide necessary improvement of its present water system. The proposed project will enable YBWC to comply with the requirements set forth in the DHS order and Res. W-4197. The surcharge for the proposed project should also be authorized.

DHS, as the state agency responsible for water supply health and safety, is best equipped to establish and enforce water supply and treatment requirements. To the extent that DHS issues compliance orders to water utilities under our jurisdiction, as it has in this instance, it is our responsibility to provide the regulated utility the means to comply with such orders.

The Commission has in the past authorized a service fee for new service to undeveloped lots and recommends that YBWC be granted authority to impose a

service fee for future customers who will benefit from the expenditures being made from the proceeds of the requested loan. The amount of the service fee would be the accumulated total of the loan rate surcharge from its inception to the time of service connection, subject to a maximum of \$2,000. The monthly surcharge would apply thereafter.

The Commission, therefore, will authorize YBWC to borrow the total principal sum of \$60,000; to issue a long-term promissory note in connection with said borrowing on terms and conditions contemplated herein; and upon completion of the project, to institute a surcharge on customers' bills to repay the loan and interest, with the following conditions:

1. The loan repayment surcharge should be separately identified on customers' bills. The utility plant financed through the surcharge should be permanently excluded from rate base for ratemaking purposes and the depreciation on this plant should be recorded in memorandum accounts for income tax purposes only.
2. YBWC should establish a specific bank account to be debited with revenue collected through the surcharge and the accrued interest on the revenue. The bank account should be charged with payments of principal and interest on the loan. The surcharge should be adjusted periodically to reflect changes in the number of connections and resulting overages and shortages in the bank account. Such changes in future rates should be accomplished by normal advice letter procedures.
3. YBWC should deposit all rate surcharges collected with a fiscal agent. Such deposits should be made within 30 days after the surcharges are collected from customers.
4. The service fee would be chargeable to customers requesting future services to undeveloped lots and would be the pro-rata accumulated total of the monthly surcharge as applied to the property being furnished water service from the effective date of the surcharge to the date of connection. The maximum service fee would be \$2,000. The service fee would be due and payable upon connection of water service to the property. Thereafter the customer would pay the applicable tariff rates plus the monthly surcharge.

5. If the annual debt service of the loan is significantly different from the estimated \$9,000 amount indicated in the filing, YBWC should notify the Water Division of the new amount and subject to Commission's approval, revise the surcharge rate schedule appearing on page 5 of this resolution by advice letter filing.
6. On or before July 31, 2003, and yearly thereafter, for as long as the surcharge is imposed, YBWC should send a comparative report to the Water Division stating the changes in the number of connections by type of customer and by size of connection, the amount of surcharge and service fee revenues collected, the amount of loan repayments made, the outstanding balance of the loan, and the overages and shortages in the utility's balancing account. YBWC should also indicate in the report if any advice letter is forthcoming to reflect changes in the rate surcharges.

It is appropriate to emphasize that the surcharge and service fee thus authorized will cover only the cost of the loan incurred to finance YBWC's improvement and addition to plant. It will not preclude any future rate increase request to cover rising costs of repair, materials, wages, property taxes, power bills, or other operating expenses that may be incurred in connection with operating the water facilities.

COMMENTS

On March 29, 2002, the Commission mailed the draft resolution of the Water Division in this matter to parties in accordance with Public Utilities Code Section 311(g)(1) and Rule 77.7 of the Rules of Practice and Procedure. No comments were received.

FINDINGS

1. The proposed water system improvements are needed to produce a healthful, reliable water supply.
2. The proposed surcharge is designed to generate approximately \$9,000 annually for 10 years to repay the principal and interest on the proposed loan.
3. The proposed rate surcharge will increase the water rates by \$2.07 per month for 76.8% of YBWC's customers.
4. Res. W-4197 ordered YBWC to initiate a project to provide an additional source of supply.
5. The proposed borrowing is for proper purposes and the money, property, or labor to be procured or paid for by the issue of the loan authorized by this resolution is reasonably required for the purposes specified, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
6. The rate surcharge to be established to repay the loan should last as long as necessary to repay the loan. The surcharge would not be commingled with other utility charges.
7. It is reasonable to establish a service fee for new connections pertaining to vacant or undeveloped lots since these lots will benefit from these improvements.
8. A lump sum service fee of the applicable surcharge times the number of months from the instigation of the service charge to the initiation of water service, up to a maximum of \$2,000 payable upon connection by customers requesting future services to presently undeveloped lots is reasonable.
9. The increases in rates and charges authorized by this Resolution are justified and are reasonable.
10. The utility plant financed by this loan should be permanently excluded from rate base for ratemaking purposes.
11. The establishment of a separate bank account by YBWC is required to ensure adequate accountability for deposits and disbursements of loan proceeds to the utility.

12. Special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility owners. The bank account would be debited with revenues collected through the surcharge and accrued interest on the revenues. The bank account would be reduced by payments of principal and interest on the loan. The rate surcharge should be adjusted periodically to reflect changes in the number of connections and resulting overages and shortages in the bank account.
13. YBWC should review annually the rate surcharge and adjust as necessary, by the advice letter procedure, the rate surcharge to reflect changes resulting in overages and shortages in the bank account.
14. If there is a material difference in the estimated and actual annual debt service requirement, the rate surcharge granted herein should be revised immediately by advice letter filing, subject to Commission approval.
15. The rate surcharge should be effective upon completion of the project.
16. YBWC should pay the fee determined in accordance with PU Code § 1904(b).

THEREFORE, IT IS ORDERED that:

1. On or after the effective date of this Resolution, Yerba Buena Water Company is authorized to borrow a total of \$60,000 for the purposes described at pages 2 to 3 of this Resolution.
2. Yerba Buena Water Company may execute and deliver a loan contract or related documents in connection with the loan.
3. Yerba Buena Water Company shall file with the Water Division a copy of the loan agreement, promissory note, and debt service schedule within 15 days after execution.
4. Yerba Buena Water Company is authorized to file in accordance with General Order No. 96-A, and make effective on five days' notice, but not earlier than the completion date of the project, an advice letter which implements the rate surcharges attached to this order as Appendix A and Appendix B or a proportionately lesser amount, as determined to be appropriate by the Water Division.

5. Upon execution of the loan authorized herein, Yerba Buena Water Company shall record all billed surcharge and the accrued interest on the revenues in a special bank account. The bank account shall be reduced by payment of principal and interest. A separate statement pertaining to the surcharge shall appear on each customer's water bill.
6. Yerba Buena Water Company shall deposit all rate surcharges and lump-sum service fees collected with a fiscal agent. Such deposits shall be made within 30 days after the surcharges are collected from customers. The name, address, and telephone number of the fiscal agent shall be provided in writing to the Commission.
7. If there is a material difference in the estimated and actual annual debt service requirement, Yerba Buena Water Company shall by advice letter filing, subject to Commission approval, revise the rate surcharge granted herein.
8. As a condition of the rate increase granted herein, Yerba Buena Water Company shall be responsible for refunding or applying on behalf of the customers any surplus accrued in the bank account when ordered by the Commission.
9. The plant financed in this Resolution shall be permanently excluded from rate base for ratemaking purposes.
10. Yerba Buena Water Company shall notify the Water Division in writing of the completion date of the project.
11. On or before July 31, 2003 and yearly thereafter, for as long as the surcharge is imposed, Yerba Buena Water Company shall send a comparative report to the Water Division stating the changes in the number of connections by type of customer and by size of connection, the amount of surcharge collected, the amount of repayments made, the outstanding balance of the loan, and the overages and shortages in the utility's bank account. Yerba Buena Water Company shall also indicate in the report if an advice letter will be forthcoming to reflect changes in the rate surcharges.
12. The authority granted by this order shall become effective when Yerba Buena Water Company pays \$120 as required by Public Utilities Code § 1904(b).

13. The Advice Letter and tariff sheets shall be marked to show that they were authorized by Resolution W-xxxx.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 2, 2002. The following Commissioners approved it:

WESLEY M. FRANKLIN
Executive Director

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service rendered on annual basis.

TERRITORY

In Parts of Sections 26 and 27, T.1S, R.20 W, S.B.B.& M., adjacent to the Pacific Ocean, Ventura County, and designated Parcels indicated on the Service Area Map.

RATES

		Per Meter	
		<u>Per Month</u>	
Quantity Rate:			
All water, per 100 cubic feet	\$	0.35	
Service Charge:			
		Years 1 to 10	(N)
		Surcharge	
<u>Size of Meter</u>		<u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 13.00	2.07	
For 1-inch meter	32.50	5.17	
For 1 1/2-inch meter	65.00	10.33	
For 2-inch meter	104.00	16.53	
For 3-inch meter	195.00	30.99	(N)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is to be added to the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. The surcharge is in addition to the water bill. The surcharge is specifically for the (N) repayment of the loan with a 10-year term authorized by Resolution No. W-4328. |
3. The surcharge rates are subject to periodic adjustment. (N)

APPENDIX B

Schedule No. 2

UNDEVELOPED LOT CHARGE

APPLICABILITY

Applicable to undeveloped lots within the service territory of Yerba Buena Water Company.

RATES

A service charge to provide for reduction of the loan surcharge is chargeable to customers requesting future service to undeveloped lots.

The service charge shall be the accumulated total of the surcharges provided for in Schedule No. 1, as applied to the property being furnished water service from the effective date of this advice letter to the date of connection. The maximum service charge shall be \$2,000. The service charge shall be due and payable upon connection of water service to the lot. The surcharge authorized by the Commission, as contained in Schedule No. 1 will apply thereafter.